

State of New Jersey

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

ENERGY

IN THE MATTER OF THE PETITION OF)
NEW JERSEY NATURAL GAS COMPANY)
FOR THE ANNUAL REVIEW AND)
REVISION OF ITS LEVELIZED GAS)
ADJUSTMENT CLAUSE (LGAC) FACTOR)
CONSISTING OF THE ANNUAL REVIEW)
AND REVISION OF THE GAS COST)
RECOVERY (GCR) FACTOR, THE)
DEMAND SIDE MANAGEMENT ADJUST-)
MENT CLAUSE (DSMAC) FACTOR, THE)
WEATHER NORMALIZATION CLAUSE)
(WNC) FACTOR, AND THE REMEDIATION)
ADJUSTMENT CLAUSE (RA) FACTOR)

ORDER AUTHORIZING
PROVISIONAL RATES

DOCKET NOS. GR99100778
GR99100779
GR99100780
GR99100781

(SERVICE LIST ATTACHED)

BY THE BOARD:

On September 30, 1999, New Jersey Natural Gas Company ("NJNG", "Petitioner, or "Company") filed a petition with the Board of Public Utilities ("Board") to decrease its Levelized Gas Adjustment Clause ("LGAC") factor, including Sales and Use Tax ("SUT"), from \$0.1564 per therm to \$0.1518 per therm commencing January 1, 2000 through December 31, 2000. On July 17, 2000, the Company amended its original petition to more accurately reflect projected gas costs and to provide more flexibility in responding to future changes in the cost of natural gas. Through its amended petition, NJNG sought to increase its LGAC factor, including SUT, from \$0.1564 per therm to \$0.2894 per therm, effective September 1, 2000.

NJNG's request to change its overall LGAC factor was based upon its request to modify the components of its LGAC, including SUT, as follows: increase its Gas Cost Recovery ("GCR") factor from \$0.1013 per therm to \$0.2491 per therm, increase its Remediation Adjustment ("RA") factor from \$0.0022 per therm to \$0.0080 per therm; decrease its Transportation,

Education and Implementation ("TEI") factor from \$0.0018 per therm to \$0.0000 per therm, decrease its Prior Gas Cost Adjustments ("PGCA") factor from \$0.0292 per therm to \$0.0104 per therm; and maintain its Demand Side Management Adjustment Clause ("DSMAC") factor of \$0.0035 per therm, and its Weather Normalization Clause ("WNC") factor of \$0.0184 per therm.

If approved, Petitioner's requested rate increase would have increased the monthly bill of a typical residential customer using 100 therms from \$82.87 to \$96.17, an increase of \$13.30, or 16%.

Currently NJNG has authority to change its GCR rate through its Flexible Pricing Mechanism ("FPM"). The FPM allows NJNG to increase or decrease its GCR rate during the months of November through March subject to certain parameters. Increases are subject to a monthly cap of \$0.007 per therm and an annual limit of \$0.035 per therm. However, there is no monthly cap or annual limit for rate decreases, and rate decreases are mandatory whenever the calculated monthly factor yields a decrease of \$0.007 per therm or greater for a given month. NJNG's amended petition proposed to modify its FPM on a pilot basis for the two-year period ending December 31, 2002 as follows:

1. To permit the Company to utilize the FPM throughout the year, if necessary, rather than solely during the months of November through March;
2. To increase the monthly FPM cap on increases from \$0.007 per therm to \$0.014 per therm; and
3. To change the total annual FPM limit on increases from \$0.035 per therm to \$0.070 per therm.

Prior to triggering an FPM increase in any one year above \$0.035 per therm, however, the Company proposed that it would first meet with Board Staff ("Staff") and the Division of the Ratepayer Advocate ("Ratepayer Advocate" or "RPA") to demonstrate the need for such an FPM increase, and would not put such an increase into effect if the parties found the Company's justification warranted further investigation.

On January 31, 2000, the Board transmitted NJNG's filing to the Office of Administrative Law ("OAL") for hearing as a contested case. A public hearing was held for the amended petition before Administrative Law Judge ("ALJ") Louis G. McAfoos, III, t/a, at the Barkalow School in Freehold Township, New Jersey on August 22, 2000.

The parties in this proceeding are the Petitioner, the Ratepayer Advocate, and Staff. The parties have engaged in settlement discussions during this proceeding.

On October 3, 2000, NJNG filed an Emergent Motion with the Board seeking immediate and emergent provisional rate relief pursuant to N.J.S.A. 48:2-21.1 and N.J.A.C. 1:1-12.6(b). NJNG requested that the Board authorize an immediate increase in the Company's natural gas rates and approve its proposed modifications to its existing FPM, as proposed by the Company in its amended LGAC petition and detailed above. Specifically, the Company asked the Board to approve a provisional increase of approximately 16% to a typical residential customer, which increase would be subject to refund with interest should the Board determine after further proceedings that a refund is appropriate.

If approved, the Ratepayer Advocate's proposal would increase the monthly bill of a typical NJNG residential customer using 100 therms from \$82.87 to \$96.87, an increase of \$14.00, or 16.9%.

The Ratepayer Advocate notes its concerns about the escalating prices of natural gas and the effects on consumers this coming winter. However, the Ratepayer Advocate asserts that it is still necessary to deal with the impact of the high gas costs that prevail now. The Ratepayer Advocate asserts that its proposal takes into account not only the dramatic increases in the cost of gas, but also the impacts on customers and ways of mitigating those impacts. The proposal was devised to include three basic elements: (1) expeditious rate relief to the utilities during the heavy winter usage period; (2) measures to mitigate the impacts of the rate increase on consumers; and (3) an education program to inform all New Jersey consumers how they can conserve energy, and where to find assistance if they need it.

The second part of Ratepayer Advocate's proposal includes measures to help customers who may have difficulty paying these increased costs. The gas utilities would offer extended payment plans, fund special initiatives, such as increased utility contributions to New Jersey Statewide Heating Assistance and Referral for Energy Services ("SHARES"), and other ventures, such as joint weatherization projects with New Jersey retail businesses, and free energy audits. The utilities would also absorb some portion of the increase in gas costs, by reducing their share of margin sharing revenues as an offset to gas costs. The third part of the Ratepayer Advocate's proposal is to educate consumers of the many steps they can take to conserve energy, and the various energy assistance programs available to consumers who cannot afford a rate increase. The Ratepayer Advocate proposes that the gas utilities, in cooperation with the Board and the Ratepayer Advocate, undertake a statewide education campaign to inform consumers how they can conserve energy and provide information about available energy assistance programs. The Ratepayer Advocate proposes that the gas utilities include bill inserts to their customers detailing information about available government and utility energy assistance programs, such as the Low Income Home Energy Assistance Program ("LIHEAP"), Lifeline, and SHARES. Additionally, the Ratepayer Advocate proposes that all gas utilities should install the "Chronicles" computer program to provide their customer service and collections personnel with ready access to information on available energy assistance programs for eligible customers.

In addition, in order to mitigate the impact of future price spikes, the Ratepayer Advocate proposes that all the gas utilities adopt a flexible, mixed gas portfolio purchasing strategy consisting of fixed gas price contracts, both short-term and long-term, storage inventories, financial instruments, and spot market purchases. Further, prudent financial hedging should be an integral component of gas purchasing strategies.

The intent of the Ratepayer Advocate's proposal is to provide a balance between the utilities' need for the rate relief to avoid large cost under-recoveries and the consumers' needs for assistance and education. In summary, the Ratepayer Advocate asserts that its proposal is fair to both the gas utilities and their customers.

Discussion and Findings:

The Board has reviewed Petitioner's motion for provisional rate relief and attachments thereto, as well as the comments of the Ratepayer Advocate. The Board is very concerned about the impact of escalating natural gas prices upon New Jersey's customers and upon New Jersey's natural gas utilities. The price of natural gas has increased significantly since March of this year

In the present case, the Board has reviewed the sharp increase in the price of natural gas and Petitioner's projection that this increase will likely cause it to have an underrecovered gas cost balance at the end of its LGAC year ended December 31, 2001 of approximately \$115.7 million if its rates are not increased. Due to the magnitude of this projected underrecovered balance, we find that delaying a rate increase in this proceeding would almost certainly result in a significantly larger increase in rates later this year in order to bring this underrecovered balance down to a reasonable level. Further, delay would cause Petitioner's rates to be significantly lower than the actual cost of gas and would make it difficult, if not impossible, for third party suppliers to compete in Petitioner's service territory.

However, in light of the extraordinary circumstances presented by this case and based upon the Board's review of Petitioner's emergent motion and the Ratepayer Advocate's response thereto, the Board believes that it is reasonable and in the public interest to address these issues and to take action on a provisional basis at this time, pending further review of these issues. Therefore, in order to avoid the build up of a large underrecovered gas cost balance and the potential for larger increases in rates later this year, the Board APPROVES on a provisional basis, subject to refund and interest, an increase in Petitioner's Gas Cost Recovery ("GCR") component of its LGAC billing factor including sales tax ("SUT"), from \$0.1013 to \$0.2343 per therm effective on and after the date of this Order. The impact of this will be an increase in the monthly bill of a typical residential customer using 100 therms from \$82.87 to \$96.17, an increase of \$13.30, or 16%.

5 Docket Nos. GR99100778, GR99100779,
 GR99100780, GR99100781

Further, in light of the volatility currently in the gas market, the Board HEREBY FINDS it appropriate to have flexible pricing in place this winter. Flexible pricing will provide Petitioner with immediate rate relief, coupled with rate decreases for consumers if gas costs come down. Therefore, the Board provisionally APPROVES the continuation of Petitioner's Flexible Pricing Mechanism ("FPM") through April 30, 2001, subject to further Board decision after Petitioner's December 2000 further submission and subsequent January 2001 evidentiary hearings as detailed later in this Order and subject to the following parameters:

- 6 Docket Nos. GR99100778, GR99100779,
 GR99100780, GR99100781

In addition, in light of the volatility that exists in the gas market at this time, the Board believes that the effects of this volatility will need to be monitored and further assessed throughout this year. Therefore, Petitioner is DIRECTED to file a submission to the Board and the parties by December 1, 2000. This submission shall be the subject of evidentiary hearings before the Board in January 2001, and shall include the following information:

1. A summary of the current status of the gas market and Petitioner's projection of how it will change over the 18 months ended May 31 2002, including the current status of the NYMEX market.
2. Petitioner's gas purchasing plans for the 18 months ended May 31, 2002. Petitioner shall address its gas purchasing strategy, including its use of fixed gas price contracts (both short-term and long-term), storage inventories, financial instruments and spot market purchases. With regard to financial hedging, Petitioner shall address the parameters it uses, including triggers, and associated costs.
3. A detailed description of all mitigation measures that Petitioner has taken to lower its cost of gas and to stabilize its customers' rates. This description shall address, but not be limited to, Petitioner's use of hedging, including fixed price contracts.
4. Based upon NYMEX closing prices on November 27, 2000, Petitioner shall provide:
 - a. Petitioner's projection of what per therm rate increases/decreases it expects to implement under the above approved flexible pricing for the period December 1, 2000 through April 30, 2001. Petitioner shall show the monthly impact of each of these rate changes to a residential customer using 100 therms per month expressed in present and proposed monthly bills, increased dollars, and increased percentages.
 - b. Petitioner's projection of what its over/(under) recovered gas cost balance will be, by month, through the end of its 2001 LGAC year under the rate treatment approved in this Order.
5. Documentation, testimony, information, and schedules in support of the provisional rates approved in this Order so that the Board may determine whether or not they should become final LGAC rates.
6. If Petitioner believes that any modifications to the rate treatment approved in this Order are necessary as a result of the status of the gas market, a proposal detailing said modifications along with testimony, support, and schedules for said modifications. Further, Petitioner shall publicly notice this proposal and schedule and notice public hearings for this proposal.
7. Petitioner's assessment of how the rate increases have impacted its low-income customers and how programs such as budget billing and extended payments have helped said customers.

Parties wishing to respond to Petitioner's submission shall file replies by December 15, 2000. After assessing the above information, the Board will make a determination regarding whether any modifications are necessary to the provisional rate treatment, including the flexible pricing provisions approved in this Order. In addition, the Board will address whether or not the FPM will continue beyond January 31, 2001 and what modifications to the mechanism, if any, should be implemented.

Petitioner shall make subsequent submissions on a quarterly basis, beginning on April 1, 2001. These filings will provide updated gas cost information. In addition, if Petitioner believes that it will need a rate increase or decrease as a result of the updated gas cost information, the submissions will include such a request. Further, Petitioner shall publicly notice any proposed rate increase and schedule and notice public hearings for it. These requests will be limited to issues related to the appropriate rate to recover Petitioner's prudently incurred gas costs. Other LGAC issues, for example, adjustments to components such as remediation costs, weather normalization, demand side management costs, or transportation education and implementation costs, that are not related to current gas costs will be addressed in Petitioner's annual LGAC filings. Specifically, the quarterly filings shall include the following information:

1. A summary of the current status of the gas market and Petitioner's projection of how it will change over the next 18 months including the current status of the NYMEX market.
2. Petitioner's gas purchasing plans for the next 18 months. Petitioner shall address its gas purchasing strategy including its use of fixed gas price contracts (both short and long-term), storage, financial instruments, and spot market purchases. With regard to financial hedging, Petitioner shall address the parameters it uses including triggers, and estimated costs (with a cap).
3. A detailed description of all mitigation measures that Petitioner has taken to lower its cost of gas and to stabilize its customer's rates. This description shall address, but not be limited to Petitioner's use of hedging (including fixed price contracts).
4. Based upon NYMEX closing prices on the second Friday preceding the filing, (If Friday is a holiday, the prices on the next business day shall be used.) Petitioner shall provide:
 - a. Petitioner's requested per therm rate increase/decrease. Petitioner should show the impact of this rate change on the bill of a typical residential customer using 100 therms per month expressed in present and proposed monthly bills, increased dollars, and increased percentage.
 - b. Petitioner's projection of what its over/(under) recovered gas cost balance will be, by month, for the next 18 months under the rate treatment requested, and if no rate change is made.
 - c. Testimony and schedules supporting any requested rate change.

Further, by letters dated September 27, 2000, and September 29, 2000, from the Acting Director of the Energy Division to each of the gas utilities, the utilities were requested to provide specific updated information related to their respective LGAC mechanisms on a weekly basis.

In order to continue to monitor the impact of the volatility of the gas market, Petitioner is DIRECTED to continue reporting this information to the Board and Ratepayer Advocate to cover the period through the end of the current LGAC year as well as the following LGAC year and to continue to provide this information on a weekly basis until changed by further order of this Board.

In order to mitigate the impact of rate increases on customers, the Board DIRECTS Petitioner to initiate the following mitigation measures:

1. Petitioner shall offer extended payment plans to their customers, above and beyond what they may currently be offering. The length of the payment plan offered shall depend on individual customers, but should include plans that allow customers to spread out their payments, without interest, over periods of at least six months.
2. In developing Petitioner's future gas purchasing strategies, Petitioner shall consider hedging strategies, including the use of fixed price contracts.
3. On or before January 1 of each year, Petitioner shall provide the Board, Staff, and the Advocate with its gas purchasing strategy based on a mixed portfolio approach, consisting of fixed gas price contracts (both short-term and long-term), storage inventories, financial instruments, and spot market purchases. With regard to financial hedging, Petitioner shall include parameters, triggers, and associated costs.
4. SHARES, a non-profit corporation comprised of all of the State's electric and gas utilities except New Jersey Natural Gas Company, provides grants to help residential customers experiencing temporary financial difficulties pay their utility heating bills. The program is funded by a combination of stockholder, employee and voluntary contributions made by the customers of the member utilities. While not a member of New Jersey SHARES, New Jersey Natural Gas Company funds a similar program, "Gift of Warmth." The Board believes both programs provide valuable assistance to customers in time of need and, while recognizing that we may consider further expansion or modification of both programs (either in the Universal Service Proceeding now being conducted by the Board (Docket No. EX00020091) or in implementation of the energy assistance program, P.L. 2000, c.132, signed into law by Governor Whitman on September 21, 2000), we believe we should take steps now to increase customer awareness that these resources are available. Accordingly, we DIRECT Petitioner to:
 - a. Contact and increase to the extent possible the number of Community Action Program ("CAP") and other social service agencies that serve as intake agencies for SHARES within Petitioner's service area;
 - b. Add to its call center the ability to provide inquiring customers with the location of the CAP or other participating agency closest to that customer, as well as a brief description of the SHARES program and its eligibility requirements;
 - c. Recommend modifications to the program to expand the number of eligible participants;

- d. Encourage through bill inserts, or other means, customers' contributions prior to this year's heating season; and
- e. Explore the possibility of joining Shares in order to economically avail itself of the potentially expanded use of the Chronicles software.

Further, it is important that Petitioner initiate actions to ensure that customers are given accurate bills, and are aware of the various steps they can take to conserve energy and the availability of energy assistance programs to certain customers who may have difficulty in paying their utility bills. Therefore, the Board DIRECTS Petitioner to take the following measures:

1. Petitioner shall take the necessary steps to ensure that budget payments are accurately set for budget billing plan customers and that they are based upon actual meter readings, rather than estimated readings. In this regard, Petitioner shall make every effort to read customers' meters, or to call customers by telephone and ask them for their readings, if it is not possible to arrange for a mutually agreed upon time for the utility to read the meters. Further, Petitioner shall perform special meter reads when requested by the customer or when otherwise necessary, and shall accommodate the customer in every way possible to get actual readings of the meter.
2. Petitioner shall provide at least two bill inserts, with advance copies to Staff by November 10, 2000, providing:
 - a. Information about gas cost increases, including typical monthly bill impacts for residential heating and non-heating customers with various usages;
 - b. Information about budget billing and extended payment programs; and
 - c. Detailed information about all available government and utility energy assistance and energy efficiency programs, including LIHEAP, Lifeline, NJ SHARES or Gift of Warmth, federal weatherization programs, and any available home energy efficiency inspection and weatherization programs. The inserts shall provide eligibility information for each program, including samples of income levels needed to qualify for each program. There shall be a toll-free phone number for the utility for information on assistance with utility bills, energy efficiency and related programs. The information should also advise customers where to apply for State and federal assistance, including the toll-free phone number for LIHEAP.
3. Petitioner shall maintain its current tariffs on its web site so that customers can determine their current rates as soon as possible, and adjust their usage accordingly.
4. Petitioner shall provide additional education through other media, to be funded through the existing consumer choice education program to advise customers of the availability of the various assistance programs where people can go for help.
5. Petitioner shall provide additional education targeted at social service agencies to advise them of the various assistance programs available.

6. Petitioner shall require its utility customer service and collections personnel to advise all customers with payment problems about available assistance programs and provide them with the appropriate toll-free phone number.

The Board believes that the above decision is just and fair and in the public interest, as it will permit Petitioner to recover on a provisional basis, subject to refund with interest, its prudently incurred gas costs on a timely basis, will allow for timely decreases if warranted, will provide for mitigation of future gas increases, and provide customers with important information regarding possible payment options and assistance. Therefore, the Board HEREBY ORDERS the Company to file final provisional tariff pages which conform to the terms and conditions of this Order within ten (10) business days from the date of this Order.

DATED: NOVEMBER 1, 2000

BOARD OF PUBLIC UTILITIES
BY:

(SIGNED)

HERBERT H. TATE
PRESIDENT

(SIGNED)

CARMEN J. ARMENTI
COMMISSIONER

(SIGNED)

FREDERICK F. BUTLER
COMMISSIONER

ATTEST: (SIGNED)
FRANCES L. SMITH
BOARD SECRETARY